DIRECT INVESTIGATION REPORT

Mechanism for Handling Conflict of Interests in Organisations Subvented by Leisure and Cultural Services Department

November 2007

Office of The Ombudsman

Hong Kong

CONTENTS

Chapter		Paragraph
1	*INTRODUCTION*	
	Background	1.1 - 1.2
	Purpose and Ambit	1.3
	Investigation Report	1.4 - 1.6
2	*LCSD SUBVENTION AND FINANCIAL SUPPORT*	2.1
	Annual Subvention	2.2
	Project-based Financial Support	2.3
	Amount of Subvention and Financial Support	2.4
3	*MONITORING MECHANISM*	
	Annual Agreement	3.1 - 3.2
	Code of Conduct	3.3
	Subvention Guidelines	3.4
	Notification Letter / Agreement on Engagement of Services	3.5
	Quality Audit	3.6 - 3.7
	Performing Arts Groups	3.8
4	*CASE STUDY*	
	HKAAA Case	4.1 - 4.4
	Other Conflict Cases	4.5 - 4.6
5	*OUR OBSERVATIONS*	
	Code of Conduct	5.1 - 5.4
	Proper Management of Conflict of Interests	5.5
	Code of Conduct and Procurement Guidelines	5.6 - 5.9
	Quality Audit	5.10 - 5.12
	Sanctions	5.13
6	*CONCLUSION AND RECOMMENDATIONS*	6.1 - 6.3
7	*FINAL REMARKS*	
	Comments from Leisure and Cultural Services Department	7.1 - 7.2
	Comments from Home Affairs Bureau	7.3 - 7.4
	Final Remarks from The Ombudsman	7.5 - 7.7

ANNEX		*Paragraph*
A	*List of National Sports Associations*	*2.2(a)*
B	*List of NGO Camps and Centres*	*2.2(b)*
C	*List of Sports Organisations*	*2.3(a)*
D	*Comments from Leisure and Cultural Services Department*	*7.1*

1

INTRODUCTION

BACKGROUND

1.1 In March 2006, the media reported that the Hong Kong Amateur Athletic Association ("HKAAA") had in the past awarded a service contract to a company owned by its Chairman.

1.2 As HKAAA is subsidised by public funds, The Ombudsman was concerned whether the Leisure and Cultural Services Department ("LCSD") had appropriate mechanism in place to monitor conflict of interests in LCSD-subvented organisations. After preliminary inquiries and examination of the information from LCSD, The Ombudsman informed the Director of Leisure and Cultural Services ("DLCS") on 5 February 2007 of her decision to initiate a direct investigation under section 7(1)(a)(ii) of The Ombudsman Ordinance.

PURPOSE AND AMBIT

1.3 Our investigation focused on:

(a) the role of LCSD in monitoring conflict of interests in LCSD-subvented organisations;

(b) the system for monitoring conflict of interests in those organisations;

(c) follow-up actions in case of conflict of interests; and

(d) follow-up actions taken by LCSD on the HKAAA incident.

INVESTIGATION REPORT

1.4 A draft investigation report was sent on 2 August 2007 to DLCS.

1.5 At a meeting with us on 27 August 2007, the representatives of the LCSD directorate advised that implementation of some of the recommendations in the report would come within the purview of the Home Affairs Bureau ("HAB"). In this connection, we sent a copy of the draft investigation report on 29 August 2007 to the Permanent Secretary for Home Affairs ("PSHA") for comments.

1.6 We received a coordinated reply from PSHA and DLCS on 18 September 2007. The final report was issued on 12 November 2007.

2

LCSD SUBVENTION AND FINANCIAL SUPPORT

2.1 Funds granted by LCSD can be broadly divided into two categories: annual subvention and project-based financial support.

ANNUAL SUBVENTION

2.2 The following organisations receive annual subvention from Government for their administration expenses, personnel emoluments and programme fees:

(a) 57 National Sports Associations ("NSAs")[1], listed at **Annex A**, including HKAAA;

(b) 25 non-governmental organisation ("NGO") holiday camps and sea activity centres, listed at **Annex B**; and

[1] An NSA is the sole national body of that sport recognised by its International Federation and the Sports Federation and Olympic Committee of Hong Kong, China. Having fully paid up its subscription, an NSA is in good standing with these bodies.

(c) four performing arts groups including the Hong Kong Philharmonic Society, the Hong Kong Chinese Orchestra, the Hong Kong Repertory Theatre and the Hong Kong Dance Company. Since 1 April 2007, funding responsibility for the organisations cited at (c) has been taken over by HAB.

PROJECT-BASED FINANCIAL SUPPORT

2.3 Project-based financial support is provided to schools and the following organisations for specific programmes and activities:

(a) 28 sports organisations listed at **Annex C**;

(b) Greening Hong Kong Activities Subsidy Scheme[2];

(c) Greening School Subsidy Scheme[3];

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[2] Cash subsidy is granted to local organisations to organise greening projects such as flower shows, greening exhibitions and gardening competitions. The activities must be completed within 3 months after approval has been given. If the proposed activity lasts for more than 4 months, bi-monthly progress reports should be submitted to LCSD.

[3] Applications are invited once a year. Schools must complete the approved greening projects and activities before a specified date. Maximum subsidy ranges from $2,000 for horticultural maintenance to $20,000 for tree planting.

(d) Hong Kong Arts Festival Society;

(e) Hong Kong Archaeological Society; and

(f) project-based engagement of performing groups[4] in presenting cultural programmes;

AMOUNT OF SUBVENTION AND FINANCIAL SUPPORT

2.4 From 2004/05 to 2006/07, LCSD granted a total of $1,085,626,050 in annual subventions and project-based financial support as follows:

***Annual subventions*:**

(a) $380,717,320 (39.96%) to NSAs;

(b) $88,980,229 (9.34%) to holiday camps and sea activity centres; and

(c) $483,006,000 (50.70%) to the four performing arts groups (para. 2.2(c));

***Project-based financial support*:**

(d) $30,929,364 (23.27%) to sports organisations;

[4] From time to time, LCSD sponsors performing groups to give performances by offering a fee as well as free use of venue and ticketing services. Ticket income will go to the performing groups.

(e) $12,417,941 (9.34%) to greening projects;

(f) $47,909,000 (36.04%) to the Hong Kong Arts Festival Society;

(g) $307,000 (0.23%) to the Hong Kong Archaeological Society[5]; and

(h) $41,359,196 (31.12%) to performing groups engaged on a project basis.

[5] Due to unforeseen circumstances, the Hong Kong Archaeological Society was unable to conduct the proposed archaeological project in 2006/07. Hence, no financial support was given to HKAS in 2006/07.

3

MONITORING MECHANISM

ANNUAL AGREEMENT

3.1 The NSAs and the performing arts groups[6] are required to sign an annual **Agreement** with Government. Under such Agreement, the organisation, among other things, undertakes to:

(a) observe transparent and fair procurement and tendering procedures; and

(b) avoid conflict of interests in its work practices and decision-making processes.

3.2 These associations and organisations are required to act upon any advice rendered by LCSD, the Independent Commission Against Corruption ("ICAC") and the Audit Commission to implement the principles of fairness and transparency. The Agreement entitles Government to terminate the subvention or financial support if the association or body is in breach of any term or condition.

[6] Funding responsibility for the performing arts groups fell on LCSD from 2004/05 to 2006/07 only (para. 2.2).

[7] – ditto –

CODE OF CONDUCT

3.3 LCSD issues sample of the Code of Conduct ("the Code") for subvented NSAs to adopt according to their individual circumstances. The performing arts groups[7] have devised their own Codes. The intention of these Codes is to set out the basic standard of conduct expected of all staff on such matters as acceptance of advantages and conflict of interests.

SUBVENTION GUIDELINES

3.4 Subvention to holiday camps and sea activity centres is administered on reimbursement basis covering staff remuneration, rent and rate charges, minor repairs and capital works and maintenance. These organisations are required to manage their business in accordance with the guidelines laid down in the LCSD document entitled **Subvention Principles.** These govern the use of a subvention, setting out parameters or targets on such matters as entry requirements for managerial staff, acting appointment arrangements, target utilisation rates, use of income generated from the camps and centres, need for submission of annual budget and audited accounts. Members, staff and Authorised Persons involved in tendering are required to declare and avoid conflict of interests.

NOTIFICATION LETTER / AGREEMENT ON ENGAGEMENT OF SERVICES

3.5 For project-based financial support (para. 2.3), approval for funding is notified by letter or agreement prescribing the terms and conditions for compliance. These include details of the approved activities and the obligation for evaluation reports and certified accounting records[8].

QUALITY AUDIT

3.6 Quality audits of subvented organisations are conducted at random by LCSD's Quality Assurance Section as follows:

(a) examination of annual audit reports and inspections of funding records to ensure that use of public funds is properly accounted for;

(b) checking for compliance with the Code and terms of the Agreement or notification letter;

(c) taking action on any irregularities found and

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[8] As for funds granted under the Greening School Subsidy Scheme, given the small amount of funds granted to each school, grantees are only required to submit an activity record book and statement of expenditure on completion of activities.

[9] They are the Hong Kong Philharmonic Society, the Hong Kong Chinese Orchestra, the Hong Kong Repertory Theatre, the Hong Kong Dance Company, the Hong Kong Ballet, the City Contemporary Dance Company, Theatre Ensemble, the Hong Kong Sinfonietta, the Chung Ying Theatre Company and Zuni Icosahedron.

seeking rectification as appropriate.

3.7 LCSD realises that subvented NSAs are accountable to the public and to Government. It, therefore, monitors the activities of subvented organisations for compliance with the Agreement within its manpower constraints. LCSD considers that subvented organisations, as independent entities registered under the relevant ordinances (e.g. Companies Ordinance and Societies Ordinance), should be responsible for the ethical conduct of their internal affairs in compliance with the relevant statutory provisions.

PERFORMING ARTS GROUPS

3.8 From 1 April 2007, HAB has taken over the funding responsibility for the ten major performing arts groups[9] from LCSD and the Hong Kong Arts Development Council. HAB has signed annual Funding and Service Agreement with these groups with similar clauses on handling of conflict of interests (para. 3.1). The groups have also devised their own individual Code of Conduct (para. 3.3).

4

CASE STUDY

HKAAA CASE

4.1 From time to time, NSAs enter into contracts with outside bodies for procurement of goods and services in organising sports activities. In 2003, the subvention of NSAs was under the control of the then Hong Kong Sports Development Board. At that time, HKAAA decided to use the champion chip timing system for local distance running events. Having researched on available service providers and conducted an open tender, HKAAA awarded a contract for such system to a company owned by its Chairman.

4.2 LCSD took over the subvention responsibility in 2004/05. When it became aware of media reports concerning this HKAAA tender, LCSD initiated its own inquiry in March 2006. It found that HKAAA's search for a champion chip timing system and its availability in overseas markets were open knowledge in the sports sector and among members and member/affiliated clubs of HKAAA. Any interested party could seek to secure the authorised distributorship and respond to the open tender. The Chairman had, in fact, tendered resignation from HKAAA chairmanship on 15 March 2005, before HKAAA Board met to discuss the renewal of the contract, in order to avoid perceived conflict of interests, but his service as Chairman was retained by HKAAA Board. Having declared his interests, the Chairman then abstained from the decision-making

processes for the renewal of the contract.

4.3 Based on the above findings, LCSD considered that the conduct of the Chairman of HKAAA should not be impugned. However, LCSD saw the need for compliance with due process in subvented organisations. On conclusion of its inquiry, LCSD initiated improvement measures as follows:

(a) LCSD discussed with HKAAA how to improve compliance in future. Taking reference from the incident, HKAAA has reviewed its procurement procedures and engage independent third parties in its procurement committee to enhance credibility and transparency.

(b) LCSD held a joint seminar with ICAC on 23 June 2006 for all subvented NSAs on declaration of interests, promulgation of detailed procurement guidelines and proper payment methods[10].

(c) LCSD issued samples of the Code revised by ICAC and Procurement Guidelines[11] devised by ICAC to all subvented NSAs (including

[10] HKAAA attended the seminar.

[11] The Procurement Guidelines aim to minimise risks of corruption. They outline principles of best procurement practices.

HKAAA).

(d) LCSD asked all subvented NSAs to review their internal ethical code and to draw up procurement procedures for submission to LCSD within the financial year 2006/07, as a condition for renewal of the Agreement for the financial year 2007-08.

(e) LCSD has engaged professional bodies such as the Hong Kong Institute of Directors for thematic seminars to help disseminate good practices to subvented organisations for better corporate governance.

4.4 Meanwhile, the service contract in question expired in September 2007. The Chairman ceased to hold office from January 2007.

OTHER CONFLICT CASES

4.5 In response to our inquiry, LCSD found no other case of conflict of interests in the last three years.

4.6 Generally speaking, LCSD accepted that the award of contracts by LCSD-subvented organisations to companies owned by their Chairman or

members would invite questions on conflict of interests. However, it considered a blanket restriction inappropriate as some circumstances might warrant special consideration. Each case should, therefore, be judged on its merits. Perceived conflict of interests under such circumstances should be properly managed by:

(a) adoption of open and proper tendering procedures for acquisition of services;

(b) clear declaration of interests; and

(c) abstention from meetings or discussions by the parties concerned where appropriate.

5

OUR OBSERVATIONS

CODE OF CONDUCT

5.1 The sample Code issued to HKAAA (para. 3.3) in 2004 states:

> *"a conflict of interest situation arises when the "private interests of the staff compete or conflict with the interests of the Association..."*

> *"...staff should avoid using their official position or any information made available to them in the course of their duties to benefit themselves... They should avoid putting themselves in a position that may lead to an actual or perceived conflict of interest with the Association."*

The Code cites the following as an example of conflict of interests:

> *"A staff member has a financial interest in a company which is being considered for selection as the Association's supplier of goods or services."*

5.2 The company awarded the HKAAA service contract in September 2003 was owned by its Chairman. In other words, he had a financial interest in the company selected for providing the champion chip timing system. Although the contract was already subsisting when LCSD took over subvention responsibility in April 2004, renewal of the contract in 2005 fitted squarely into the example cited in the Code. Although availability of the timing system was open knowledge in the sports sector and HKAAA had taken measures to manage the conflict of interests (para. 4.2), the renewal of service contract could result in unfairness to outsiders because such information as criteria for renewal was known only to HKAAA staff and its Chairman.

5.3 LCSD emphasised that the award of the contract took place before it assumed the subvention responsibility and before the relevant Agreement and the Code applied (paras. 4.1 – 4.2).

5.4 We consider the risk of conflict of interests to be the same, in the tendering process or upon renewal of contract. In any event, LCSD and HKAAA introduced a series of remedial action to prevent recurrence once the matter came to light (para. 4.3). The concern over continuing conflict for the duration of the contract in this case should now be resolved as the Chairman had stepped down and the contract expired.

PROPER MANAGEMENT OF CONFLICT OF INTERESTS

5.5 Regarding the award of contracts to the Chairman or a member of a subvented organisation, we have obtained the following advice from the Corruption Prevention Department of ICAC:

(a) award of a contract in such circumstances constitutes conflict of interests;

(b) as a general rule, conflict of interests should be avoided;

(c) in the event that a conflict of interests has arisen, it should be properly managed; and hence

(d) there must be a robust declaration system in place to manage the conflict. The declarer should not be involved in the award **or** management of the contract.

CODE OF CONDUCT AND PROCUREMENT GUIDELINES

5.6 We appreciate LCSD's initiative to review the Code and devise the Procurement Guidelines for NSAs subsequent to the discovery of the HKAAA

incident (para. 4.3).

5.7 As for NGO holiday camps and sea activity centres, the importance of accountability for certain aspects in the Code (i.e. conflict of interests, abuse of official position and handling of classified or proprietary information) similarly applies. LCSD should, therefore, consult ICAC as necessary to formulate a Code for them. The same goes for grantees of the greening schemes.

5.8 Currently, the performing arts groups have devised their own Codes (para. 3.3) and the contents and provisions of these Codes vary. HAB (para. 2.2(c)) should extend the review of the Code and procurement procedures to these organisations, consulting ICAC where necessary.

5.9 It is crucial that uniform standards, controls and safeguards be applied across all subvented activities, regardless of whether they are leisure or cultural in nature. It is also important that the revised Code and Procurement Guidelines be widely promulgated and periodically re-circulated among their officials and staff.

QUALITY AUDIT

5.10 LCSD considered its compliance checking hindered by constraints on manpower resources (para. 3.7). However, we note that the obligation of subvented organisations to observe the Code is clearly set out in the Agreement

(para. 3.1). This Agreement entitles Government to terminate the subvention or financial support if a subvented organisation is in breach of any of the terms and conditions (para. 3.2).

5.11 In brief, the Agreement does give LCSD, as the subvention authority and custodian of public funds, the right to ask the subvented organisation to account for any suspected breach of the Code by its officials or staff. To ensure effectiveness LCSD should consider spelling out this right explicitly in the Agreement[12].

5.12 Apart from relying on the personal integrity and self-declaration of individuals, LCSD should refine its compliance checking system (para. 3.6(b)): specify clearly the types of documents that subvented organisations should keep to record such declarations, subsequent decisions and any follow-up action. This should help keep the organisations alert, detect irregularities and identify non-compliance with a view to taking remedial action[13].

SANCTIONS

5.13 Provisions for sanction have all along been included in Agreements, including termination of agreement (para. 3.2), for breach of terms and conditions and for conflict of interests. However, such sanction does not apply

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[12] The same principle applies to the performing arts groups with HAB as the subvention authority.
[13] – ditto –

to NGO holiday camps and sea activity centres for breach of the Subvention Principles or the guidelines on invitation of quotations, calling of tenders and accounting arrangements. Corresponding monitoring and sanction mechanism should be put in place.

6

CONCLUSION AND RECOMMENDATIONS

6.1 **We commend** Government's commitment to promoting development of sports, cultural and leisure activities. However, Government should see that proper mechanism is in place in the subvented organisations to ensure that their business and activities are conducted in an open, fair and impartial manner.

6.2 We note that LCSD and HAB have put in place measures to monitor and audit the business and activities of the organisations (paras. 3.1 – 3.6 and 3.8). However, some need to be strengthened further.

6.3 Based on the above observations, The Ombudsman makes the following **recommendations** for HAB and LCSD:

Proper Management of Conflict of Interests

(1) to consult ICAC in devising a scheme to manage conflict of interests properly for award of contracts, particularly where a company is owned by the Chairman, members or staff of the subvented organisation concerned (para. 5.5);

(2) to consult ICAC on the circumstances where conflict of interests of the Chairman or head of a subvented organisation has arisen (para. 5.5);

Code of Conduct and Procurement Guidelines

(3) **(for LCSD action)** to consult ICAC as necessary, to formulate a Code for subvented holiday camps and sea activity centres and grantees of the greening schemes (para. 5.7);

(4) **(for LCSD action)** to review, in consultation with ICAC as necessary, the existing Code and procurement procedures of the Hong Kong Archaeological Society to achieve uniform standards, controls and safeguards for all Government-subvented bodies (para. 5.9);

(5) **(for HAB action)** to review, in consultation with ICAC as necessary, the existing Code and procurement procedures of the subvented performing arts groups with a view to achieving uniform standards, controls and safeguards for all Government-subvented bodies (para. 5.9);

(6) to request the subvented organisations to circulate the revised Code and Procurement Guidelines to their officials and staff periodically, also member-organisations if any (para. 5.9);

Quality Audit

(7) to exercise their contractual right to request the subvented organisations to account for any suspected breach of the Code (para. 5.11);

(8) to consider enshrining in the Agreement such contractual right explicitly (para 5.11);

(9) to specify the types of documents to record declarations of interests, subsequent decisions and any follow-up action to facilitate compliance checking (para. 5.12);

Sanctions for Non-compliance

(10) to lay down procedures for taking remedial action if compliance checking reveals possible breach of the Code or the Agreement (para. 5.12);

(11) **(for LCSD action)** to consider introducing a sanction clause for holiday camps and sea activity centres to deter conflict of interests (para. 5.13); and

(12) **(for LCSD action)** to introduce mechanism for monitoring compliance with such sanction clause (para. 5.13).

7

FINAL REMARKS

COMMENTS FROM LCSD

7.1 We have set out LCSD's comments at **Annex D**. For other comments considered appropriate for incorporation into the report, we have revised the text.

7.2 In addition, LCSD has accepted all our recommendations and has already started to implement some of them.

COMMENTS FROM HAB

7.3 Since 1 April 2007, HAB has taken over the funding responsibility for the ten major performing arts groups (para. 3.8).

7.4 HAB has accepted all our recommendations and will implement them in refining its system for monitoring conflict of interests in the groups above.

FINAL REMARKS FROM THE OMBUDSMAN

7.5 The Ombudsman notes LCSD's comments. She makes it clear that the recommendations made in this report aim to strengthen measures to avoid and, where unavoidable, manage and control any conflict of interests between

individual members and the subvented organisations which they serve in the use of public funds. These measures should not restrict the flexibility of these organisations in seeking financial support from the private sector to promote their cause in a proper manner.

7.6 She is grateful to LCSD and HAB for assistance throughout this investigation. The Ombudsman appreciates LCSD and HAB's acceptance of our recommendations and, in particular, LCSD's remedial measures on its own initiative in the wake of the HKAAA case.

7.7 We will monitor progress of implementation of our recommendations by LCSD and HAB.

Office of The Ombudsman
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ANNEXES

List of National Sports Associations **Annex A**

	Name of National Sports Associations
1.	Hong Kong Amateur Athletic Association
2.	Hong Kong Amateur Swimming Association
3.	Hong Kong Badminton Association Limited
4.	Hong Kong, China Rowing Association
5.	Hong Kong Cycling Association
6.	Hong Kong Fencing Association
7.	Hong Kong Squash
8.	Hong Kong Table Tennis Association Limited
9.	Hong Kong Tennis Association Limited
10.	Hong Kong Tenpin Bowling Congress Limited
11.	Hong Kong Triathlon Association
12.	Hong Kong Wushu Union Limited
13.	Windsurfing Association of Hong Kong
14.	Handball Association of Hong Kong, China Ltd.
15.	Hong Kong Archery Association
16.	Hong Kong Baseball Association Limited
17.	Hong Kong Basketball Association
18.	Hong Kong Billiards Sports Control Council Company Limited
19.	Hong Kong Boxing Association
20.	Hong Kong Canoe Union
21.	Hong Kong China Bodybuilding and Fitness Association
22.	Hong Kong Chinese Martial Arts Dragon and Lion Dance Association Limited
23.	Hong Kong Cricket Association
24.	Hong Kong Dragon Boat Association.
25.	Hong Kong Equestrian Federation
26.	Hong Kong Federation of Roller Sports Limited
27.	Hong Kong Football Association Ltd.
28.	Hong Kong Gateball Association Company Ltd.
29.	Hong Kong Golf Association Limited
30.	Hong Kong Hockey Association.
31.	HongKong Ice Hockey Association Ltd.
32.	Hong Kong Karatedo Federation Limited
33.	Hong Kong Kart Club Limited
34.	Hong Kong Kendo Association Limited
35.	Hong Kong Lawn Bowls Association
36.	Hong Kong Life Saving Society
37.	Hong Kong Mountaineering Union
38.	Hong Kong Netball Association
39.	Hong Kong Paralympic Committee and Sports Association for the Physically Disabled
40.	Hong Kong Rugby Football Union
41.	Hong Kong Sailing Federation
42.	Hong Kong Shooting Association
43.	Hong Kong Shuttlecock Association
44.	Hong Kong Skating Union Ltd.
45.	Hong Kong Softball Association
46.	Hong Kong Sports Association. of the Deaf
47.	Hong Kong Sports Association of the Mentally Handicapped
48.	Hong Kong Taekwondo Association
49.	Hong Kong Underwater Association
50.	Hong Kong Water Ski Association
51.	Hong Kong Weightlifting and Powerlifting Association
52.	Orienteering Association of Hong Kong
53.	The Gymnastics Association of Hong Kong, China
54.	The Hong Kong Schools Sports Federation
55.	The Judo Association of Hong Kong, China
56.	The University Sports Federation of Hong Kong , China
57.	Volleyball Association of Hong Kong, China

Annex B

List of Subvented NGO Camps/Centres 資助非政府機構營舍/中心一覽表

No.	NGO (非政府機構)	Camp/Centre (營舍/中心)
1.	Hong Kong PHAB Association (香港傷健協會)	Pokfulam PHAB Camp (薄扶林傷健營)
2.	The Boys' & Girls' Clubs Association of Hong Kong (香港小童群益會)	Bradbury Camp (白普理營)
3.	Caritas – Hong Kong (香港明愛)	Caritas Oi Fai Camp (明愛愛暉營)
4.		Caritas Jockey Club Ming Fai Camp (明愛賽馬會明暉營)
5.		Caritas Siu Tong Camp (明愛小塘營)
6.	Hong Kong Young Women's Christian Association (香港基督教女青年會)	YWCA Youth Camp (香港基督教女青年會青年營)
7.	The Salvation Army (救世軍)	Bradbury Camp (救世軍白普理營)
8.		Ma Wan Youth Camp (馬灣青年營)
9.	Chinese YMCA of Hong Kong (香港中華基督教青年會)	Lion's - YMCA Junk Bay Youth Camp (獅子會－青年會將軍澳青年營)
10.		Wu Kwai Sha Youth Village (烏溪沙青年新村)
11.		Y's Men – YMCA Wong Yi Chau Youth Camp (聯青社–青年會黃宜洲青年營)
12.	The Hong Kong Award for Young People (香港青年獎勵計劃)	Duke of Edinburgh Training Camp (愛丁堡公爵訓練營)
13.	Hong Kong Playground Association (香港遊樂場協會)	Silvermine Bay Outdoor Recreation Camp (銀礦灣戶外康樂營)
14.	Hong Kong Red Cross (香港紅十字會)	Shek Pik Camp (石壁營)
15.	Hong Kong Girl Guides Association (香港女童軍總會)	Jockey Club Beas River Lodge (賽馬會碧溪莊)
16.		Yuen Long Recreation Centre (元朗康樂中心)
17.		Sandilands Centre (新德倫山莊)
18.		Leung Sing Tak Sea Activities Training Centre (梁省德海上活動訓練中心)
19.	The Hong Kong Federation of Youth Groups (香港青年協會)	Lamma Youth Camp (南丫青年營)
20.		Jockey Club Sai Kung Outdoor Training Camp (賽馬會西貢戶外訓練營)
21.		Tai Mei Tuk Outdoor Activities Centre (大美篤戶外活動中心)
22.		Stanley Outdoor Activities Centre (赤柱戶外活動中心)
23.	Scout Association of Hong Kong (香港童軍總會)	Tai Tam Scout Centre (大潭童軍中心)
24.		Tung Tsz Scout Centre (洞梓童軍中心)
25.		Pak Sha Wan Tam Wah Ching Sea Activity Centre (白沙灣譚華正海上活動中心)

Annex C

List of Sports Organisations

Name of Sports Organisations
1. HK Chinese Chess Assn.
2. Sports Federation & Olympic Committee of HK, China
3. HK Tennis Patrons' Assn.
4. HK DanceSport Assn.
5. HK Chess Federation
6. HK Chinese Amateur Swimming Assn.
7. HK Christian Service
8. HK Contract Bridge Assn.
9. HK Dance Federation Limited
10. HK Darts Assn.
11. HK Go Assn.
12. The HK Ladies Football Assn.
13. HK Miniature Football Assn.
14. HK Tai Chi Assn.
15. HK Teacher's Assn.
16. HK Ultimate Players Assn.
17. HK Winter Swimming Assn.
18. Kowloon Miniature Football Assn.
19. NT Regional Sports Assn.
20. The Outward Bound (Alumni) Assn.
21. Sail Training Assn. of HK
22. South China Athletic Assn.
23. Sport Climbing Assn. of HK, China
24. The Citizen Athletic Assn.
25. HK Society of the Deaf
26. The Scout Assn. of HK
27. The Chinese Football Assn. of HK
28. Happy Valley Athletic Assn.

Annex D

COMMENTS FROM LCSD

Hypothetically, the case of HKAAA would have had come under the Government's scrutiny had the subvention been administered by LCSD and the subvention agreement existed at the time. However, the incident happened before LCSD assumed the subvention responsibility and before the relevant subvention agreement and code became applicable in April 2004. HKAAA was not therefore required then to refer to the sample code. Were HKAAA under LCSD's subvention at the time of the incident, we would agree that there might have been perceived conflict of interest in the case of HKAAA in which the company awarded the HKAAA service contract was owned by its Chairman. We consider that the crux of the matter is whether the perceived conflict of interest is properly declared and managed. In this case, HKAAA had activated management mechanism according to its internal guidelines. The declaration system was enforced, abstention from decision-making was taken, and resignation from the chairmanship was volunteered though eventually retained by HKAAA. There was a system in place within HKAAA at that time to deal with the perceived conflict of interest but we agree that more could have been done to manage the situation. LCSD had initiated inquiry into the case in March 2006 and recommended HKAAA to review its internal procurement mechanism, engage third parties in enhancing credibility and transparency of the decision-making process. At the same time, we had consulted ICAC again to devise more stringent samples of code of conduct and procurement guidelines for NSAs to follow. We had also arranged ICAC to conduct conflicts awareness seminars and professional body to conduct thematic talks on corporate governance for NSAs to reinforce the messages. As there is always room for further improvement to manage conflict of interest better, we have been continuously exploring with ICAC on ways to enhance the monitoring mechanism.

2. We agree that NSAs as recipients of government subvention should be held to uphold the principles of fair play and accountability in the use of public funds. We require NSAs to conduct all their business in a proper and lawful manner by terms of the subvention agreement. New clauses on compliance with NSA's code of conduct and internal procurement guidelines have been explicitly stated in the new subvention agreement for financial year 2007/08. NSAs are partners of the

Government in the development and promotion of sports. The subvention they receive from the Government is in most cases seed money to facilitate their sourcing of a much larger pool of financial support towards the cause. Within the principles of fair play and public accountability, we consider that there is a need to maintain certain flexibility for NSAs to adopt more streamlined procedures to achieve efficiency and to accommodate specific requirements of donors and sponsors. We will enlist ICAC's assistance to examine this aspect in greater detail in the corruption prevention study with a view to seeking the right balance.